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IN THE

Supreme Court of the United States

OCTOBER TERM, 1944

NO. [redacted] 11

ALMA MOTOR COMPANY,
Petitioner,

v.

THE TIMKEN-DETROIT AXLE COMPANY,
Respondent.

UNITED STATES OF AMERICA,
Intervenor.

REPLY BRIEF OF AMICI CURIAE

JAMES D. CARPENTER, JR.,
75 Montgomery Street,
Jersey City, N. J.,

JOHN G. BUCHANAN,
1025 Union Trust Building,
Pittsburgh, Pa.,

Amici Curiae.

SMITH BROS. CO. INC., LAW PRINTERS, 434-436 BOULEVARD OF ALLIES, PITTSBURGH, PA.

SUBJECT INDEX.

PAGE

(A) The Royalty Adjustment Act Takes the Right of the Petitioner to Receive Royalties from the Respondent 1

(B) The Royalty Adjustment Act Is a Taking of Property, Not Merely a Reduction of Its Value 11

TABLE OF CASES.

Alma Motor Co. v. Timken-Detroit Axle Co., 144 F. (2d) 716 1

Bowles v. Willingham, 321 U. S. 503 11

Brooks-Scanlon Corp. v. United States, 265 U. S. 106 ..... 6, 7, 10

Calhoun v. Massie, 253 U. S. 170 12

A. W. Duckett & Co. v. United States, 266 U. S. 149 .. 8

International Paper Co. v. United States, 282 U. S. 399 8

In re Manderson, 51 Fed. 501 16

Mitchell v. United States, 9 Pet. 711 15

Mullen Benevolent Corp. v. United States, 290 U. S. 89 10

Norman v. Baltimore & Ohio R. R. Co., 294 U. S. 240 12

Omnia Commercial Co. v. United States, 261 U. S. 502 ..... 6, 10

Pacific R. R. of Missouri v. Ketchum, 95 U. S. 1 15

Perry v. United States, 294 U. S. 330 13

Philadelphia, B. & W. R. R. Co. v. Schubert, 224 U. S. 603 14

Schley v. Pullman Car Co., 120 U. S. 575 14

South Carolina v. Wesley, 155 U. S. 542 15

United States v. Powelson, 319 U. S. 216 10

STATUTES, ETC.

Act of October 31, 1942, c. 634, 56 Stat. 1013 ..... 2, 11

Hearings before the Committee on Patents, House of Representatives, on H. R. 7620 3

House of Representatives Report No. 2602, 77th Congress, 2nd Session 4

Senate Report No. 1640, 77th Congress, 2nd Session 4

Pittsburgh Post-Gazette, April 20, 1945 17

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NO. 806

ALMA MOTOR COMPANY,
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THE TIMKEN-DETROIT AXLE COMPANY,
Respondent.

UNITED STATES OF AMERICA,
Intervenor.

REPLY BRIEF OF AMICI CURIAE

The brief for the United States comes in short to the following points:

(a) That no right to receive royalties is taken by the Royalty Adjustment Act, but only "a new license under patented inventions."

(b) That no property is taken by the Royalty Adjustment Act, but there is merely a "reduction in the value of the license agreement."

We will take up each of these points.

(A) THE ROYALTY ADJUSTMENT ACT TAKES THE RIGHT OF THE PETITTIONER TO RECEIVE ROYALTIES FROM THE RESPONDENT.

The learned court below put the matter very clearly (R. 116-117):

"What we have here is a taking of private property for public use. The property involved is the

patent owner's royalty rights under the license with the manufacturer."

No other conclusion can be drawn from the language of the Act. The Act is "An Act To provide for adjusting royalties for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes." It is an Act to adjust royalties under existing licenses, not an Act to provide for new licenses, including provisions for new royalties. It does not say anything about a license to the United States. What it is concerned with is "an invention, whether patented or unpatented, * * * manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder," which "includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition" (Sec. 1). No "new license" under the invention is taken, but "whenever a reduction in the rates or amounts of royalties is effected by order, * * * such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid directly or indirectly * * *, or by way of refund if already paid to the licensee" (Sec. 4). That no "new license" to the Government is contemplated is shown by the provision that the Act "shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the

effective date of the notice provided for" (Sec. 7). No new licenses, but royalties under existing licenses, are the sole subject matter of the Act.

The brief for the Government makes frequent references to the reports of the Senate and House Committees on Patents on the bill which was passed (S. 2794) and the report of the hearings before the House Committee on the similar House bill (H. R. 7620). Each bill was a bill for adjusting royalties for the use of inventions, and nothing was said in the hearings or the reports about a supposed "new license" taken by the United States.

Mr. Lanham, who presided at the hearings before the House Committee, said (p. 4):

> "The purpose of this legislation, if I understand it, is merely in accordance with that authority under the act of 1918, to make some proper arrangements with reference to royalties, in keeping with the war conditions which exist.
>
> "Now, is that, gentlemen, a proper preliminary statement of the purpose of this legislation? I think that we might get that definitely before us in the beginning.
>
> "Colonel Vanderwerker. I think so.
>
> "Colonel Patterson. I think so."

Colonel Earl S. Patterson, for the War Department; Mr. Ralph L. Chappell of the Procurement Legal Division, for the Navy Department; and Mr. D. L. Kreeger (whose name appears on the brief for the Government in the case at bar), for the Department of Justice, made statements in support of the bill. None of these gentlemen, nor any other witness before the Committee, said a word about a "new license" to the United States. All talked

about existing licenses, and no other licenses were hinted at.

The report of the Senate Committee, 77th Congress, 2d Session, No. 1640, reads in part as follows (pp. 4-5):

> "The bill would permit the War Department to examine existing royalty agreements of Government contractors and subcontractors and whenever it appeared that the amount of royalty was too great, such Department could give notice to the licensee not to pay any further royalty until further order. An examination of the problem would be made and a conclusion reached as to the amount of royalty deemed fair and equitable under the particular circumstances. The licensee would then be advised to pay such amount as the procurement authority found to be fair and just and no more. Such an order would apply to royalty unpaid at the time of the original notice whether or not a delivery of the article embodying the invention has taken place.
>
> * * * * * * *
>
> "The bill also attempts to make certain the credit to, or recoupment by, the Government of any reduction in royalty. The purpose of section 4 is to insure that a contractor or subcontractor, who by reason of an order reducing a royalty payment involved in his contract does not have to pay as much royalty as was contemplated by the parties at the time the procurement contract was entered into, will be compelled to give the Government the benefit of such reduction."

The report of the House Committee (No. 2602) is substantially to the same effect (pp. 5-6). Neither report says a word about a new license to the United States.

The Royalty Adjustment Order (R. 94) specifies "a fair and just rate or amount of royalty, taking into account the conditions of wartime production, to be paid by Licensee to Licensor pursuant to the licenses specified," which are existing licenses, no new license to the United States being mentioned. It provides that, "until further Order, Licensee is hereby authorized to pay to Licensor (a) under the licenses identified * * *, (b) under any license between them entered into on or after the effective date" of a notice of December 30, 1942, and "(c) under any license between them entered into on or after the date of this Order which in any respect continues, supplements, modifies, or supersedes any of the licenses referred to * * * royalties as * * * specified in * * * this Order, and no more." The licenses dealt with are licenses to which the Government is not a party, and no new license to the Government is called for. The "Licensee is hereby directed forthwith to pay over to the Treasurer of the United States the balance of any royalties, accrued or hereafter accruing under the licenses referred to * * * on account of supplies, equipment, or materials delivered to or for the War Department, which are in excess of the royalties specified" (R. 95), and the royalty specified is "$0.00" (R. 96).

Could there be a clearer case of the taking of an existing right to royalties under a license for the benefit of the United States?

Whether we look to the language of the Act, to its legislative history, or to the order made under it and complained of in the case at bar, the theory that the Act appropriates a new license, not the royalties due under an existing license, like the baseless fabric of a

vision, dissolves and leaves not a rack behind. It is such stuff as dreams are made on; and its little life is rounded with a sleep.

What we have said disposes of the reliance by the Government on *Omnia Commercial Co. v. United States,* 261 U. S. 502, discussed in the brief of *amici curiae* (pp. 15-16) and in the brief for the Government (*passim*). What was taken in that case was not the right of the plaintiff to buy steel plate but the steel plate which it had the right to buy. What is taken in this case is the right of the petitioner to be paid royalties under its contract, which the respondent is "directed forthwith to pay over to the Treasurer of the United States."

Since, however, the *Omnia* case appears to be the sole reliance of the Government in its effort to avoid the payment of the market value of the right to receive royalties taken from the petitioner, we bring to the attention of the Court a number of subsequent decisions showing its inapplicability to the case at bar.

Brooks-Scanlon Corp. v. United States, 265 U. S. 106, discussed in the brief of *amici curiae* (pp. 16-18), is such a case. Mr. Justice Butler, delivering the opinion of the Court, said (pp. 120-121):

> "*Omnia Commercial Co. v. United States,* 261 U. S. 502, does not support the contention that claimant's contract was not expropriated. There, claimant had a contract giving it an opportunity to purchase a large quantity of steel plate from a steel company at a price under the market. If the contract had been carried out, large profits would have resulted. Before any deliveries were made, the United States requisitioned the steel company's entire production of steel plate. No specific steel plate

had been appropriated to the contract, and no part of the purchase price had been paid. The action taken by the United States applied to the steel company only and created no relations with the claimant. The contract was not kept alive nor resorted to in order to determine anything involved in the transaction between the United States and the steel company; the benefit of the low prices was not taken; no payments made on account of the purchase price were taken; nothing belonging to the Omnia Company was taken. Damages claimed were held too remote. The differences between that case and this are essential and obvious."

Let us apply to the case at bar the tests laid down in the *Brooks-Scanlon* case. Here the action taken by the United States did *not* apply to the licensee only and *did* create relations with the licensor. The license *was* kept alive and resorted to in order to determine the amount involved in the transaction between the United States and the licensee. The benefit of the royalties *was* taken by the United States, including payments to be made on account of use prior to the order. A right to royalties belonging to the licensor *was* taken, as the learned court below said (*supra*, p. 1). Nothing belonging to the *licensee* was taken. Compensation for the right taken from the licensor must be paid. The Royalty Adjustment Act recognizes this in giving the licensor the right to sue the United States, but deprives him of just compensation, because he cannot sue for the value of the amount taken but only for compensation that takes into account the conditions of wartime production. If he could sue for the value of the right taken, there would be no purpose in the Act, because he would get just what the United States had taken from him.

A. W. Duckett & Co. v. United States, 266 U. S. 149, was a claim for the value of the claimant's interest in a pier under a lease. The claim was based upon an implied contract alleged to have arisen from a taking for war purposes of portions of the docks, including the claimant's pier. The Court of Claims rejected the claim, and its judgment was reversed by this Court, with directions to award proper compensation to the appellant. Mr. Justice Holmes, delivering the opinion of the Court, said (p. 152):

> "*Omnia Commercial Co. v. United States*, 261 U. S. 502, which was thought to give some color to the decision below, has no bearing upon the present question. There the Government made a requisition of the entire product of a Steel Company for a year. On the assumption that the Government thereby made it impossible for the Steel Company to perform a contract to sell a large quantity of steel plate to the claimant, the decision was that nevertheless the contract was not taken. The contract was no part of the *res* taken and whatever might be the collateral consequences of the appropriation liability for them was not an incident of the Government's act. 261 U. S. 510. Here the claimant's possession under its lease was a part of the *res*, and therefore was within the implied promise to pay."

So in the case at bar the petitioner's right to royalties under its license contract was the *res* taken.

International Paper Co. v. United States, 282 U. S. 399, was a proceeding to recover compensation for property rights in water, alleged to have been taken for war purposes. The petitioner was entitled by conveyance

and lease to draw water from a canal. The President, by reason of the exigencies of the national security and defense, placed an order with the owner of the canal for and requisitioned the total electrical power which was capable of being produced through the use of all waters diverted through the canal. The Court of Claims found that the shutting off of the water from the petitioner's mill cost it $304,000 overhead expense, but gave judgment that the petition be dismissed. This Court reversed the judgment. Mr. Justice Holmes, delivering the opinion of the Court, said (p. 408):

> "We perceive no difficulty arising from the case of *Omnia Commercial Co. v. United States*, 261 U. S. 502. There the taking of the whole product of a company went no further than to make it practically impossible for that company to keep a collateral contract to deliver a certain amount of steel to the appellant. But here the Government took the property that the petitioner owned as fully as the Power Company owned the residue of the water power in the canal. Our conclusion upon the whole matter is that the Government intended to take and did take the use of all the water power in the canal; that it relied upon and exercised its power of eminent domain to that end; that, purporting to act under that power and no other, it promised to pay the owners of that power, and that it did not make the taking any less a taking for public use by its logically subsequent direction that the power should be delivered to private companies for work deemed more useful than the manufacture of paper for the exigencies of the national security and defence."

Similarly, in the case at bar it may be said that the Government intended to take and did take the right

to all the royalties under the petitioner's license contract; that it relied upon and exercised its power of eminent domain to that end; that, purporting to act under that power and no other, it promised to pay the petitioner, the owner of the patent, for its right to royalties. *The constitutional objection is that it did not promise to pay the petitioner the full and perfect equivalent in money of that right but something less, depending on the conditions of wartime production and the answer to a claim that the patent is invalid.*

"Frustration and appropriation are essentially different things": *Omnia Commercial Co. v. United States,* 261 U. S. 502, at 511. The cases cited in the preceding paragraphs show that it is so clear that the right of the petitioner to royalties is not frustrated but is appropriated for the Treasury of the United States that we deem it unnecessary to discuss the cases of *Mullen Benevolent Corp. v. United States,* 290 U. S. 89, and *United States v. Powelson,* 319 U. S. 216, relied on in the brief for the United States (footnote 24). The Government in the case at bar has proceeded in conformity with the requirements of the license contract and put itself in the shoes of the licensor so far as the right to royalties under that contract is concerned. It has taken from the licensor and "appropriated to the use of the United States all the rights and advantages that an assignee of the contract would have had" (*Brooks-Scanlon Corp. v. United States,* 265 U. S. 106, at 120). The right and advantage which it appropriated are not subject to the defense of invalidity of the patent, as the brief for the Government suggests. That defense cannot be asserted against the United States, the assignee of the right to royalties. It is available only if the licensor sues the United States.

(B) THE ROYALTY ADJUSTMENT ACT IS A TAKING OF PROPERTY, NOT MERELY A REDUCTION OF ITS VALUE.

The second argument for the Government is that the Act "finds independent support in the Federal war powers." By "independent" the counsel for the Government mean independent of the support of the Act under the power of eminent domain.

But it is unnecessary to repeat in detail the discussion of the legislative history, the terms of the Act and the terms of the Royalty Adjustment Order to show that though the Act was passed for the purpose of the war, no power except the power of eminent domain was exercised for that purpose. The Act must stand or fall as a law for the taking of property for public use. It is not a price-fixing regulation. Royalties fixed by license agreements are not adjusted generally, and the reductions that are made must "inure to the benefit of the Government by way of a corresponding reduction in the contract price * * *, or by way of refund if already paid to the licensee" (Sec. 4). The orders direct that the amount of the reduction (in the case at bar, the whole amount of the royalties) shall be paid over to the Treasury of the United States, and the orders are applicable to sums past due as well as to royalties to become chargeable to the United States in future.

What we have just said clearly disposes of the reliance placed by the Government on the decision in *Bowles v. Willingham*, 321 U. S. 503, where Mr. Justice Douglas, delivering the opinion of the Court, said (p. 517):

> "We are not dealing here with a situation which involves a 'taking' of property."

Another case relied on by the Government is *Calhoun v. Massie,* 253 U. S. 170, in which an Act limiting the amount that might be paid to an a torney on account of services or advances in connection with a claim for which the Act made an appropriation was held to be within the power of Congress. The Court, in an opinion by Mr. Justice Brandeis, pointed out, however (p. 176):

> "At the time when the contract was entered into there was no legislation general or special which conferred upon Massie any right of recovery even if he should establish to the satisfaction of Congress that his claim was equitable. A statute making an appropriation to pay the claim was thus a condition precedent to liability on the part of Massie to Calhoun; and the thing contracted for was Calhoun's aid in securing its enactment. The aid was to be given by representing Massie before the Court of Claims. But both of the parties knew that, although Calhoun might have success before the Court of Claims, Congress would still be free to refuse both to recognize the claim as an equitable one and to make an appropriation for its payment. They also knew that if it concluded to grant relief, Congress was free to do so upon such conditions as it deemed proper."

Moreover, there was no taking of Calhoun's right by the Government.

Norman v. Baltimore & Ohio R. R. Co., 294 U. S. 240, lends no support to the contention that the Royalty Adjustment Act is constitutional. That case involved the application of the Joint Resolution of June 5, 1933, to a "gold clause" in a bond for the future payment of dollars in gold coin of the United States "of or equiva-

lent to the standard of weight and fineness existing" on the date of the bond. The bond was a private obligation, not an obligation of the United States. The Attorney General placed his argument squarely on the ground that there was no taking. He said (pp. 257-258):

> "The contention that the Joint Resolution constitutes a taking of property without just compensation is clearly without foundation. The provision of the Fifth Amendment which bears upon that proposition relates to the taking of private property by the Government for a public use; and the Resolution, as applied to gold clauses in private contracts, is not a taking of property in a constitutional sense, but merely frustrates a purpose contained in a private obligation found to be incompatible with the exercise of national power."

Mr. Chief Justice Hughes, delivering the opinion of the Court, was careful to point out (p. 306):

> "The Government's own contracts—the obligations of the United States—are in a distinct category and demand separate consideration. See *Perry v. United States*, decided this day, *post*, p. 330."

Perry v. United States, 294 U. S. 330, where the Joint Resolution was held to be unconstitutional insofar as it undertook to nullify gold clauses in obligations of the United States and to provide that such obligations should be discharged by payment in any currency which was legal tender, affords a closer analogy to the case at bar. In the *Perry* case the effect of the reduction in value of the obligation was, like the effect of the Royalty Adjustment Order here, to improve the financial position of the United States. The plaintiff in that case had not attempted to show that in relation to buying power he

had sustained any loss; but the petitioner here clearly has sustained loss to the extent that its royalties or any part thereof are payable to the United States instead of to itself.

Philadelphia, B. and W. R. R. Co. v. Schubert, 224 U. S. 603, also relied upon in the brief for the Government, sustained the provision of the Employers' Liability Act of 1908 to the effect that exemptions from liability should be void and the acceptance of benefits under a relief contract should not be a bar to recovery in a case where the relief contract was made before the passage of the Act. The case is of course distinguishable, however, as a mere exercise of the police power without any taking of property for the United States (see brief of *amici curiae,* p. 29).

Appendix C to the brief for the United States is a curious collection of letters and excerpts from letters between various Government officials, and in one case between such an official and an officer of the respondent, none of them in the record of the case. As to these, the admonition of this Court, speaking by Mr. Justice Harlan in *Schley v. Pullman Car Co.,* 120 U. S. 575, appears to us pertinent (p. 578):

> "Notwithstanding the agreement, that the case should be heard in the court below upon the single question referred to in the stipulation, the counsel for the defendant in error states many things, which he declares to be 'incontrovertible facts,' and within the knowledge of opposing counsel, but which are wholly unsustained by anything in the record. The motion to strike out relates to those matters. The excuse given for this breach of pro-

fessional propriety is 'the extreme brevity of the record.' But it is the same record upon which counsel for the company succeeded for his client, and which, by agreement, contained all that was to be submitted to the court. The excuse given furnishes no apology whatever for his violation of the terms of the stipulation, much less does it palliate his attempt to influence the decision here, by reference to matters not in the record, and which, he must have known, could not be taken into consideration. It is only necessary to say that the facts, *dehors* the record, which have been improperly introduced into the brief of the counsel for the defendant in error, have not in any degree influenced our determination of the case."

Cf. *Mitchell v. United States,* 9 Pet. 711, at p. 731; *Pacific R. R. of Missouri v. Ketchum,* 95 U. S. 1, at p. 3; *South Carolina v. Wesley,* 155 U. S. 542, at p. 544.

One only of the letters in this appendix concerns our client, in common with all other licensors who have suffered from Royalty Adjustment Orders. In this letter, dated April 11, 1945, and addressed to the Hon. Francis M. Shea, Assistant Attorney General, whose name appears on the brief for the United States in this case, it is "estimated" that more than $128,000,000 has been saved to the War and Navy Departments as a result of orders and agreements made pursuant to the Royalty Adjustment Act, "subject to reduction by the amounts which the patent owners in question may recover as * * * fair and just compensation * * * under Section 2 of the Act, in respect of royalty adjustment orders issued to date." If, as we contend, the payment of just com-

pensation requires the payment of the full and perfect equivalent in money of the money so taken, then the Act is a nullity and should not and will not save the United States anything. In any event, an "estimate" of savings could not be introduced in evidence. It is irrelevant to the issue between the parties. And if it *were* relevant, the estimate would still be one of "stage money" unless it should be reduced by the large income taxes payable by the licensors on their royalties if the royalties are not confiscated but the licensors are treated, as they should be, like all other citizens.

If our contention is right that this $128,000,000 belongs to the patentees under valid contract rights, this Court will defend each of them from the taking by the United States without compensation of his own share of the sum, however small. As the Circuit Court of Appeals for the Third Circuit said in *In re Manderson,* 51 Fed. 501, by Wales, D. J. (p. 503):

> "Article 5 of the amendments to the constitution of the United States prohibits the taking of private property for public use without just compensation. If the use for which it is proposed to take such property is not a public use, or if the owner of the property is not to be paid an *equivalent,* to be lawfully ascertained for its loss, then no proceedings for condemnation can or should be allowed." (Italics ours.)

Under all the authorities, the rights of the patentee and licensor are property (brief of *amici curiae,* pp. 5-8). The question before this Court is a momentous one: Is this property to be protected in the same manner as other property?

The Pittsburgh Post-Gazette of April 20, 1945, carries the following item:

"New York, April 19.—(AP)—Undersecretary of War Robert P. Patterson said today that 'science, the servant of peace, is the artisan in war.'

"'Without the help of our best scientists and technicians, our military engine soon would become little more than a museum piece,' he said."

Is not the laborer worthy of his hire?

Respectfully submitted,

JAMES D. CARPENTER, JR.,
75 Montgomery Street,
Jersey City, N. J.,

JOHN G. BUCHANAN,
1025 Union Trust Building,
Pittsburgh, Pa.,
Amici Curiae.